

# Select Committee on Pension Policy

P.O. Box 40914  
Olympia, WA 98504-0914  
actuary\_st@leg.wa.gov

## Executive Committee

August 23, 2005

2:00 pm - 3:30 pm

House Hearing Room C  
Olympia

## AGENDA

- (A) **Direction on Day's Full Agenda**
- (B) **September Committee Meeting**
  - Meeting Planner
  - Briefing Papers
- (C) **Communication with Fiscal Committees**
  - Discussion
- (D) **2005 Work Plan Review/Update**
- (E) **Other Business**

**\*Elaine M. Banks**  
*TRS Retirees*

**Representative Barbara Bailey**

**Lois Clement**  
*PERS Retirees*

**Representative Steve Conway**

**Representative Larry Crouse**

**\*Senator Karen Fraser,**  
*Vice Chair*

**\*Representative Bill Fromhold,**  
*Chair*

**\*Leland A. Goeke**  
*TRS and SERS Employers*

**\*Robert Keller**  
*PERS Actives*

**\*Sandra J. Matheson, Director**  
*Department of Retirement Systems*

**Corky Mattingly**  
*PERS Employers*

**Doug Miller**  
*PERS Employers*

**Victor Moore, Director**  
*Office of Financial Management*

**Senator Joyce Mulliken**

**Glenn Olson**  
*PERS Employers*

**Senator Craig Pridemore**

**Diane Rae**  
*TRS Actives*

**J. Pat Thompson**  
*PERS Actives*

**David Westberg**  
*SERS Actives*

**\* Executive Committee**

# Select Committee on Pension Policy

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## EXECUTIVE COMMITTEE DRAFT MINUTES

July 19, 2005

The Select committee on Pension Policy met in House Hearing Room A, Olympia, Washington on July 19, 2005.

Committee members attending:

Representative Fromhold, Chair	Robert Keller
Elaine Banks	Sandra J. Matheson
Lois Clement	Corky Mattingly
Representative Steve Conway	Glenn Olson
Leland Goeke	J. Pat Thompson

Representative Fromhold, Chair, called the meeting to order at 1:50 PM.

### (A) Gain-Sharing

Committee members discussed the "Gain-Sharing" issue.

*It was moved to seek a formal Attorney General's Opinion relating to the gain-sharing benefit provisions. Seconded.*

**MOTION CARRIED**

The following person testified:

*Randy Parr - Washington Education Association*

### (B) LEOFF 1 Benefit Cap

Committee members discussed the LEOFF 1 Benefit Cap issue. This issue will be placed on the September Agenda.

### (C) Plan 1 Unfunded Liability

Committee members discussed the different options in the "Plan 1 Unfunded Liability" report.

The following person testified:

*Bud Sizemore - Washington State Council of Firefighters*

**\*Elaine M. Banks**  
*TRS Retirees*

**Representative Barbara Bailey**

**Lois Clement**  
*PERS Retirees*

**Representative Steve Conway**

**Representative Larry Crouse**

**\*Senator Karen Fraser,**  
*Vice Chair*

**\*Representative Bill Fromhold,**  
*Chair*

**\*Leland A. Goeke**  
*TRS and SERS Employers*

**\*Robert Keller**  
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**Diane Rae**  
*TRS Actives*

**J. Pat Thompson**  
*PERS Actives*

**David Westberg**  
*SERS Actives*

**\* Executive Committee**

(360) 786-6140  
Fax: (360) 586-8135  
TDD: 1-800-635-9993

**(D) Work Plan**

Committee members discussed the August 23 and September 27 agenda items.

**(E) State Actuary Appointment Committee**

*It was moved to appoint Representative Fromhold, Chair, Senator Fraser, Vice-Chair, Mr. Leland Goeke, and J. Pat Thompson to the State Actuary Appointment Committee. Seconded.*

**MOTION CARRIED**

The meeting adjourned at 3:30 PM.

**Select Committee on Pension Policy**  
**Direction on Today's Agenda**  
*(July 20, 2005)*

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Item #	Next Steps/ Add to Month/ WorkPlan
(2) <b>SCPP Goals</b> Staff instructions:	<hr/>
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(3) <b>Plan 1 Unfunded Liability</b> Staff instructions:	<hr/>
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(4) <b>Disability Retirement</b> Staff instructions:	<hr/>
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(5) <b>TRS Out-of-State Service Credit</b> Staff instructions:	<hr/>
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(6) <b>Age 70 1/2 and Opt In/Opt Out</b> Staff instructions:	<hr/>
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(7) **Plan 3 Vesting**

Staff instructions:

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*Select Committee on Pension Policy*  
**September 27<sup>th</sup> – Meeting Planner**  
*(July 20, 2005)*

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**FULL COMMITTEE AGENDA**

- (1) USERRA compliance update - DRS report
- (2) Judges benefit multiplier - background/options
- (3) Service credit purchases - background
- (4) PSERS eligibility - options
- (5) LEOFF 1 benefit cap - options

**EXECUTIVE COMMITTEE AGENDA**

- (A) Directions on day's Full Committee Issues
- (B) October SCPP Meeting
- (C) LEOFF 2 Retirement Board Update, Steve Nelsen, Executive Director
- (D) Constituent Correspondence
- (E) Actuary evaluation

# Select Committee on Pension Policy

## Judges Benefit Multiplier

(August 15, 2005)

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### **Issue/Proposal**

The Superior Court Judges Association has asked the SCPP to review the current benefit formula for judges. The Judges Association has proposed raising the benefit formula to 3.5 percent per year to a maximum benefit of 75 percent of pay.

### **Staff**

Robert Wm. Baker (360) 786-6144

### **Members Impacted**

All members of the Public Employees' Retirement System Plans 2/3 (PERS 2/3) serving as Superior Court Judges would be affected by this proposal. According to the Administrative Office of the Courts, there are 179 Superior Court Judges in Washington State.

### **Current Situation**

Since July 1, 1988, newly elected or appointed Superior Court Judges have become members of the Public Employees' Retirement System – either Plan 2 or Plan 3 depending on their choice.

A Plan 2 member would be eligible for an unreduced retirement benefit at age 65 with at least five years of service; the member's benefit would be 2 percent of their Average Final Compensation (AFC) times their years of service.

A Plan 3 member would be eligible for an unreduced retirement benefit at age 65 with at least five years of service; their benefit would be 1 percent of their AFC times their years of service, plus whatever accumulations in their individual defined contribution account.

There is no cap on a PERS 2/3 benefit.

A PERS 2/3 member who is a Superior Court judge is also eligible for the Judges Supplemental Retirement benefit. This benefit is outlined in Chapter 2.14 RCW. Members and employers (State) each contribute 2.5 percent of pay, which is deposited into member accounts in the Judicial Retirement Principal Account within the State Treasury. Then, under the direction of the Administrator of the Courts, this account may be invested by the State Investment Board.

Upon retirement, member judges would be eligible for their PERS 2 or PERS 3 benefit, plus a distribution of their accumulated contributions from the Judges Supplemental plan. That distribution may be in the form of a lump-sum or other payment option as adopted by the Administrator for the Courts.

### **Policy Questions**

Is a combination DB/DC the best retirement plan design for late-career hires?

Does the committee want this consolidation of benefits to be of equivalent value to the existing PERS and Judges Supplemental plan?

Does the committee want to include the District and Municipal Court judges in any proposal even though they do not currently receive the Supplemental benefit?

In light of the higher compensation received by judges, is it necessary to have a higher multiplier in order for their retirement benefit to be adequate?

Are there recruitment issues that would be resolved by a modified retirement plan?

### **Next Steps**

This issue is scheduled for a full committee hearing in September.



# Select Committee on Pension Policy

## Service Credit Purchases

(August 9, 2005)

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### **Issue**

This issue encompasses two items related to service credit purchases. One is a request from two individuals for a legislative change that would authorize them to purchase service credit in PERS for their time spent outside the Washington State Retirement Systems as port commissioners. The other issue has broader implications and would involve expanding the "air time" purchase provisions as follows: air time could be purchased at normal retirement to increase benefits as opposed to being limited to purchases made at early retirement to offset the applicable actuarial reductions.

### **Staff**

Laura Harper, Senior Research Analyst/Legal  
(360) 786-6245

### **Members Impacted**

The port commissioner proposal is narrowly constructed to allow PERS service credit for two individuals, although there could be a minimal number of others that would fall within the proposed legislative exception. Expanding the use of air time could conceivably affect retirement-eligible members of PERS, TRS, SERS, and (starting July 1, 2006), PSERS.

### **Item No. 1: PERS Service Credit for Port Commissioners**

#### ***Current Situation***

Since the passage of a 1975 statute, port commissioners have been unable to join PERS or have their compensation considered salary for any purpose of any retirement system created under the laws of the state. When the 1975 statute was passed, a grandfather clause allowed port commissioners to elect to become members of PERS prior to May 1, 1975. Since that time, port commissioners have been on their own in terms of retirement benefits for

almost 30 years. The ports themselves may make retirement plans and other benefits available to port commissioners, if they so choose. For example, the Port of Tacoma makes its deferred compensation plan as well as its retirement health savings plan available to port commissioners, but this port does not provide its commissioners with any employer contributions for these plans.

Port commissioners are the elected members of the governing bodies for the ports. They receive their compensation directly from the ports. For example, the Port of Tacoma pays an annual per diem and a salary. Today the total per diem for Port of Tacoma Commissioners is \$8,400 a year (\$70 per day with a maximum of 120 days). Each commissioner with gross operating revenues of \$25 million or more (such as the Port of Tacoma and Port of Seattle) receives a salary of \$500 per month. Thus, the maximum compensation a Port of Tacoma Commissioner receives in a year is \$14,400 (salary plus per diem).

### **Proposal**

Attached is a letter to Senator Karen Fraser dated November 11, 2004, from two individuals who are proposing a legislative change to the port commissioner statute that would allow them to purchase PERS service credit for their time as port commissioners. The cost they propose to pay is the "...total amount of both the employer and employee contributions that would have been made for that person's additional such service."

### **Questions for the Executive Committee**

1. Should an exception to the port commissioner statute be proposed that would allow certain retirement system members to purchase PERS service credit for their time spent as port commissioners?
2. If so, how broadly or narrowly should such an exception be crafted?
3. If legislation were to be proposed, how should the cost of purchased service credit be apportioned? Should members bear part or all of the cost?
4. Should normal retirement system rules apply when determining how much service credit can be purchased for time spent as a port commissioner or should special rules be developed?

## **Issue No. 2: Expanding the Use of "Air Time"**

### **Current Situation**

As of July 1, 2006, eligible members of the PERS, SERS, and TRS Plans 2/3 may, at the time of retirement, make a one-time purchase of up to five years of additional service credit. The service credit purchased would not need to correspond to any actual service within Washington, or any other retirement system, hence the term "air time." The service credit is not membership service and cannot be used to qualify for retirement, but it can be used to increase early and alternate early retirement benefits by offsetting the required reductions for early retirement.

Under current law, eligible members includes only members who are eligible for early retirement or alternate early retirement. The service credit purchased is not membership service and cannot be used to qualify for retirement. The member pays the full actuarial cost of the service credit with a lump sum payment, eligible rollover, direct rollover, and/or trustee-to-trustee transfer from an eligible retirement plan at the time of retirement.

During the 2005 legislative session the LEOFF 2 Board's legislative proposal concerning air time was successful. This bill differs from the air time provisions for PERS, SERS, and TRS in that the air time is available to those eligible for normal retirement. The air time can be used to increase the member's benefits, but cannot be used for retirement eligibility. In other words, the member must already be eligible to retire in order to take advantage of this provision. The cost to the member is the actuarial equivalent value of the resulting increase in the member's benefit.

### **Proposal**

There is no specific proposal before the SCPP at this time.

### **Question for the Executive Committee:**

Should the availability of air time be expanded to include those who are eligible for normal retirement?

*Note: In the Plans 2/3, normal retirement is available at age 65 with five years of service. Early retirement is available at age 55 with 25 years of service and alternate early retirement is available at age 55 with 30 years of service.*

November 11, 2004

Senator Karen Fraser  
417 John A. Cherberg Building  
PO Box 40422  
Olympia, WA 98504-0422

Dear Senator Fraser,

Thanks for adjusting your schedule. John and I appreciate the opportunity to discuss an issue regarding pension service credits as port commissioners prior to our becoming judges. We are seeking membership credit in the Public Employees Retirement System for time served as port commissioners. We propose to fund both our contribution and the employers contribution.

Attached please find a copy of current legislation relating to port commissioner compensation (RCW 53.12.260) and a proposed amendment drafted informally by Bob Hauth, attorney for the Washington Public Ports Association.

After serving as port commissioners, we have served continuously in other county or state positions as defined in RCW 41.40.010. If approved, we would pay into the appropriate retirement fund the total amount of employee contributions for the additional service. We are currently enrolled in the PERS program. We are not enrolled in the old Judicial Retirement System. There are several reasons supporting this request: port performance, fairness due to unusual demands, public commitment, and minimal cost.

The demands made upon us were unusual for two reasons: First the Port of Tacoma revolutionized the transportation industry by creating and implementing a business model and operational concept called on-dock intermodalism. We invested over \$100 million dollars to bring trains directly into container yards. Previously containers were moved repeatedly and trucked to rail yards from the docks. Our business model was far more efficient, but it involved huge risk. As the concept was embraced by the shipping industry, Tacoma became the fastest growing port in North America during our terms as commissioners; its ranking leaped from twenty second place in North America to fifth place today.

The demands placed upon us at the time were far beyond historical norms of commissioners, because we were dealing in unproven operating concepts involving millions of dollars and the future of the port. Despite being in uncharted waters we had only a brief window of opportunity and we had to seize to and run with our advantage before others would catch us.

In addition to the urgency of capitalizing our innovation, we faced second challenge-personnel. Due to retirements and recruitments, we had three successive CEOs in eight

years and significant senior staff turnover. Commissioners were required to provide continuity with customers and stakeholders in an environment of dynamic change. Overall it was a highly unusual time, but a critical one.

The results are evident today. For example in 1980 container volume was less than 100,000 TEU (twenty foot equivalent units); by 1992 over one million containers were moved. In 2004 over 1.7 million container moves are projected. The value of trade passing through Tacoma in 1983 was \$4.5 billion dollars. In 1983 the value was \$20 billion. The direct result was a spectacular leap in employment locally and a boon to the state's economy.

While meeting the daily demands of the port John served as President of the Washington Public Ports Association and Pat was an executive board member of the Washington Council on International Trade, the Japan American Society and a China Relations Council.

The emergence of the Port of Tacoma and its success is the product of many hands; however we certainly contributed to the success enjoyed today.

There are equitable reasons to consider our request as well. All of the Port Commission members that we served with during the 1980's decade of growth received pension service credits for their time as Commissioners. The proposed legislation is drafted narrowly. The potential impact to the retirement system is slight, as we believe there are only two candidates that would qualify for this service credit.

Our dedication to public service is unbroken. John was elected to the Port Commission in November 1983 and resigned his position to become a judge in May 1992. Pat was elected to the Port Commission in January 1980 and resigned in January 1997 upon being elected to the county council. In January 2003, Pat resigned from the council and was sworn in as a District Court Judge.

Currently we are members of the PERS system and remain committed to public service. However after twenty-five years of public service, Pat has only 9.5 years of retirement service. After twenty years of public service, John only has eleven years of retirement service credits.

We thank you for your consideration on this issue. We welcome any suggestion on how to proceed. Please contact us for any questions or additional information.

Sincerely,

John McCarthy  
5703 Pinnacle Court NE.  
Tacoma, WA 98422  
925-2191

Pat O'Malley  
7812 Olympic View Dr.  
Gig Harbor, WA 98335  
857-5119

John McCarthy - Possible pension catchup

Page 1

**From:** "Bob Hauth" <hauth@owensdavies.com>  
**To:** <jmccart@co.pierce.wa.us>  
**Date:** 5/22/02 9:41AM  
**Subject:** Possible pension catchup

# MEMORANDUM

**TO:** Hon. John McCarthy,

**FROM:** Bob Hauth

**DATE:**

**RE:** Possible pension catch-up

As requested, here is some suggested language for a possible amendment to RCW 53.12.260. I have not done any current in-depth research but hope this language will fit into the statutory pattern and be acceptable. Note that I have made some changes and added a little to what I described in our telephone conversation.

(added at the end of the section)

and PROVIDED FURTHER, That notwithstanding any other provisions of this section, a current active member of the Public Employees Retirement System who became a port commissioner on or after May 1, 1975 and served continuously in that position until being elected or appointed to an eligible full or part time position with another employer as defined in RCW 41.40.010 may obtain membership credit in the Public Employees Retirement System for such additional service as a port commissioner by applying for such credit and paying into the appropriate retirement fund created pursuant to chapter 41.50 RCW the total amount of both the employer and employee contributions that would have been made for that person's additional such service .

If you need assistance in presenting this amendment, I will try to recommend someone. I do wish you the best of luck, and hope to see you at the next WPPA conference or sooner.

Incidentally, in the upcoming WPPA FINANCE AND ADMINISTRATION seminar (June 19 at the Shilo Inn at Ocean Shores) there will be a presentation on "Retirement System Options" at 1:15 p.m. It might be an opportunity for you to explore this subject. You probably have received the announcement but if not I'm sure WPPA would be happy to send you one directly, or I will.

**RCW 53.12.260**  
**Compensation.**

(1) Each commissioner of a port district shall receive seventy dollars per day or portion thereof spent (a) in actual attendance at official meetings of the port district commission, or (b) in performance of other service in behalf of the district. The total per diem compensation of a port commissioner shall not exceed six thousand seven hundred twenty dollars in a year, or eight thousand four hundred dollars in any year for a port district with gross operating income of twenty-five million or more in the preceding calendar year.

(2) Port commissioners shall receive additional compensation as follows: (a) Each commissioner of a port district with gross operating revenues of twenty-five million dollars or more in the preceding calendar year shall receive a salary of five hundred dollars per month; and (b) each commissioner of a port district with gross operating revenues of from one million dollars to less than twenty-five million dollars in the preceding calendar year shall receive a salary of two hundred dollars per month.

(3) In lieu of the compensation specified in this section, a port commission may set compensation to be paid to commissioners.

(4) For any commissioner who has not elected to become a member of public employees retirement system before May 1, 1975, the compensation provided pursuant to this section shall not be considered salary for purposes of the provisions of any retirement system created pursuant to the general laws of this state nor shall attendance at such meetings or other service on behalf of the district constitute service as defined in RCW 41.40.010(9): PROVIDED, That in the case of a port district when commissioners are receiving compensation and contributing to the public employees retirement system, these benefits shall continue in full force and effect notwithstanding the provisions of RCW 53.12.260 and 53.12.265.

[1998 c 121 § 3; 1992 c 146 § 12; 1985 c 330 § 3; 1975 1st ex.s. c 187 § 1.]

# Select Committee on Pension Policy

## Proposed 2005 Work Plan

(July 22, 2005)

### June 21, 2005

Election of officers  
Rules of procedure  
2005 meeting dates  
Session update  
2005 work plan  
2005 mandatory studies - background

### October 18, 2005

Disability retirement - options  
Service credit purchases - options  
Plan 2/3 VEBA and PEBB eligibility -  
background/options  
Accounting for postretirement medical benefits -  
background  
Plan 1 unfunded liability - options

### July 19, 2005

LEOFF 1 benefit cap - background/options  
Postretirement employment - options preview  
Plan 1 unfunded liability - background/options  
PSERS eligibility - background

### November 15, 2005

OSA retire-rehire study - report  
2004 actuarial valuation report  
2006 legislative proposals

### August 23, 2005

SCPP goals  
Gain-sharing subgroup report  
Plan 1 unfunded liability - options  
Disability retirement - background  
TRS out-of-state service credit  
Age 70 1/2 and opt in/opt out  
Plan 3 vesting

### December 13, 2005

2006 legislative proposals

### September 27, 2005

USERRA compliance update - DRS report  
Judges benefit multiplier - background/options  
Service credit purchases - background  
PSERS eligibility - DRS report  
LEOFF 1 benefit cap - options

### Other Items

Medicare Part D briefing - requested  
Reports to legislative fiscal committees - during  
legislative assembly  
January 2006 meeting - session update (pension  
bills)

### Subgroups:

Gain-sharing subgroup  
Public Safety subgroup



9315 Swanson Road  
Sumas, Washington 98295  
July 22, 2005

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Office of  
The State Actuary

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DEPARTMENT OF  
RETIREMENT SYSTEMS

Washington State School Retiree's Association  
Association Member Benefits Advisors  
6034 W Courtyard Dr. Ste 300  
Austin, Tx. 78730-9800

Thank you for the packet of quality benefits available for the retirees of Washington State. As our membership ages all of these benefits become more meaningful.

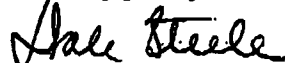
However, the one benefit most crucial to our states retirement needs, is the provision of meaningful membership on the state pension board to make decisions as to the distribution of funds from the pension fund in the form of a cost-of-living-adjustment to our aging membership. The token colas are disgraceful, the abuse of the surplus in the pension fund is unethical.

The advantage of membership in our national organization should be the availability of legal assistance skilled in these matters to help us make the board representative of our needs and rights. You should be aware of the borrowing practice of monies from our pension fund to our state, which has never been paid back.

In my opinion, we would have the monies needed for premium payments in the various excellent services you offer if a meaningful c.o.l.a. was part of our retirement.

I look forward to your response.

Sincerely yours,



Dale Steele

Cc state committee on pension policy members; Washington State Governor, The Honorable Christine Gregoire; Legislators, Ericksen, Linville; Senator, Brandlan